

STATE BANK OF INDIA

Well positioned in an improving macro environment

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State Bank of India (SBI) delivered a decent quarterly performance supported by healthy growth in its business and sustained profitability. The bank's NIM moderated on higher cost of deposits and is expected to remain range bound in the near term as deposit rates are expected to remain sticky despite recent repo rate cut. However, the impact of rate cut on margins is expected to be minimal due to its lower share of repo linked loans. Further, the bank's asset quality continues to remain strong, in a challenging macro environment with prudent provisioning policies and tightening underwriting. Additionally, the bank's operating efficiency improved, partly aiding profitability. Hence, with a strong balance sheet position and an optimistic economic outlook, we assign BUY rating on the stock with a Sum-of-the-Parts (SOTP)-based target price of ₹907.

Enhanced operating efficiency aids profitability

In Q3FY25, SBI's net-interest income (NII) grew 4.1% YoY to ₹414 bn (-0.4% QoQ), driven by healthy growth in advances (+13.8% YoY /+3.8% QoQ). The bank's net interest margin (NIM) shrank 6bps QoQ to 3.12%, owing to higher cost of deposits and yield on advances remaining stable. Moreover, pre-provision operating profit increased 15.8% YoY to ₹236 bn, due to reduced operating expenses (-6.5% YoY) with cost-to-income (C/I) at 55.1% (down 520 bps YoY), partly offset by lower other income (+3.6% YoY/(-27.7% QoQ) to ₹110 bn, led by lower forex income. Subsequently, PAT grew 84.3% YoY to ₹169 bn (-7.9% QoQ), with provisions at ₹9 bn vs. ₹7 bn in Q3FY24. The high growth is due to one-time provisional impact taken in the previous quarter, adjusting for the same PAT grew 3.9% YoY.

Asset quality continue to remain strong

During the quarter, growth in advances was primarily led by robust growth in retail (+11.7% YoY), Agri (+15.3% YoY), SME (+18.7% YoY) and corporate loans (+14.9% YoY). However, the bank witnessed slowdown in its xpress credit loans (+2.8% YoY), as the bank was in the process of moving it to digital based lending. The bank's deposits increased (+9.8% YoY/+2.2% QoQ), of which current account deposits grew 14.2% YoY and saving account deposits grew 3.0% YoY, respectively; term deposits continue to grow 13.5% YoY, driven by a high interest rate scenario. As a result, the share of CASA deposits in total deposits stood at 39.2%. Moreover, asset quality improved, with gross non-performing assets (NPAs) and net NPAs at 2.07% and 0.53%, respectively (vs. 2.13% and 0.53% in Q2FY25), led by lower slippages and healthy recoveries.

Key Financials	FY23	FY24	FY25E	FY26E	FY27E
Loan & Advances (₹ mn)	31,993	37,040	42,336	48,856	56,673
Net Interest Income	1,449	1,599	1,846	2,125	2,421
PPP ex Except. Items	837	938	1,117	1,282	1,433
Reported Profits	502	611	736	848	953
Earnings Per Share (₹)	56.3	68.4	82.4	95.0	106.8
P/E (x)	13.1	10.8	8.9	7.8	6.9
Adj. BV (₹)	324.0	380.0	462.5	557.5	664.3
P/ABV (x)	2.3	1.9	1.6	1.3	1.1
Gross NPAs Ratio (%)	2.8	2.2	2.1	1.9	1.7
Adj. RoA	1.0	1.0	1.1	1.2	1.2
Adj. RoE	16.5	17.3	17.7	17.0	16.0

BUY

Current Market Price (₹)	737
12M Price Target (₹)	907
Potential upside (%)	23

Stock Data

Sector:	Banking
FV (₹) :	1
Market Cap Full (₹ bn) :	6,572
Market Cap Free Float (₹ bn) :	2,830
52-Week High / Low (₹) :	912 / 655
BSE Code / NSE Symbol	500112 / SBIN
Bloomberg :	SBIN: IN

Shareholding Pattern

(%)	Dec-24	Sep-24	Jun-24	Mar-24
GOI	57.43	57.51	57.54	57.54
FPIs	10.28	10.71	11.16	11.09
MFs	12.34	11.46	11.12	11.61
Insurance	10.51	10.64	10.40	10.36
Others	9.44	9.68	9.78	9.40

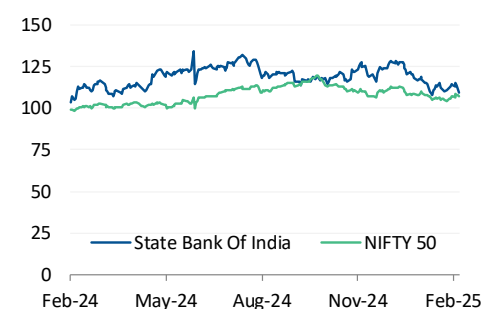
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	12M
SBI	-5.3%	-14.2%	-8.8%	9.2%
Nifty 50	-0.6%	-2.6%	-3.0%	7.4%

* To date / current date : February 7, 2025

SBI vs Nifty 50



Key Concall Highlights

- Management has guided the loan growth to be 14-16% and deposit growth to be 10-11% in FY25. NIM is expected to be higher than 3%, despite small rate cut as only 28% of the bank's loan book is linked to repo rate.
- In Q3FY25, the bank's credit cost was 0.24%, which is the best amongst industry. Thus, the management aims to maintain credit costs 0.50% over the cycle.
- The bank is focused on increasing its share in current accounts and maintaining its leadership position in savings deposits by further strengthening customer outreach and branch network.
- The sharp fall in Forex income (₹4.8 bn vs ₹91 bn in Q3FY24), is due to MTM loss and derivative transaction, which was mainly because of appreciation in USD-INR rates.
- More than 8.5 crore customers have been registered on YONO. 64% of regular saving bank accounts were opened through YONO in Q3FY25.
- The bank's credit-to-deposit (CD) ratio is one of the best amongst other banks at 76.6%. The capital adequacy ratio is at 13.03%, without considering blowback of profits, and is well above the regulatory requirement.

Outlook & Valuation

With easing of liquidity conditions and repo rate cut from the government, SBI is positioned well in the long term to capitalize on the rising credit demand, given its favorable CD ratio compared to the industry. Impact on NIMs would be minimal due to rate cuts, on the back of its lower share of repo linked book (~28%). Moreover, the bank's asset quality is expected to remain strong as lead indicators SMA 1 and SMA 2 have lowered for the quarter. Additionally, the stock is currently trading at 1.1x FY27E BVPS, lower than its historical three-year average of 1.5x. Hence, we assign BUY rating on the stock with a Sum-of-the-Parts (SOTP)-based target price of ₹907.

Exhibit 1: Sum of Total Part Valuation

Business Line	NW / PAT/ EV / AUM / Mcap (Rs mn)	Assigned Multiple (x / %)	Value of Firm (Rs mn)	Stake (%)	Value Assigned to Listed Entity (Rs mn)	Per Share (Rs)
Standalone Entity	59,28,882	1.1	65,21,770	100%	65,21,770	731
Subsidiaries / Associates						
Assets Management Business						
SBI AMC	91,43,650	8.0%	7,31,492	62%	4,55,061	51
Insurance Business						
SBI Life	14,77,129	1	14,77,129	55%	8,18,625	92
Other Business						
SBI Cards	7,85,438	1	7,85,438	69%	5,39,046	60
YES Bank	6,06,051	100%	6,06,051	26%	1,58,301	18
Value of Investment & Sub (Rs Mn)					19,71,033	221
HOLD Company Discounts					20%	
Value of Investment & Sub - ex HOLD Co Discounts					15,76,826	177
SOTP Based Enterprise Valuation					80,98,597	907

Recent Performance at a glance

Exhibit 2: Income Statement Analysis

(₹ bn)	Q3FY25	Q3FY24	% yoy / bps	Q2FY25	% qoq / bps	9MFY25	9MFY24	% yoy / bps
Interest Inc.	1,174	1,067	10.0	1,139	3.1	3,428	3,041	12.7
Interest Expenses	760	669	13.5	723	5.2	2,186	1,859	17.6
Net Interest Income	414	398	4.1	416	(0.4)	-944	-676	39.6
Other Income - Total	110	115	(3.6)	153	(27.7)	375	343	9.2
Net Operating Revenue	525	513	2.4	569	(7.7)	-570	-333	70.9
Employee Expenses	161	194	(17.0)	148	8.6	463	549	(15.6)
Other Opex	129	116	11.1	128	0.6	360	326	10.5
Total Opex	289	309	(6.5)	276	4.9	824	875	(5.8)
Pre Provision Profits	236	203	15.8	293	(19.6)	(1,393)	(1,208)	15.3
Exceptional Profit (Loss)	-	(71)	-	-	-	-	-	-
PPP ex Except. Items	236	132	77.9	293	(19.6)	-1,393	-1,208	15.3
Provisions & Contingencies - Total	9	7	32.5	45	(79.8)	89	33	168.3
Profit Before Tax	226	125	80.4	248	(8.7)	-1,482	-1,241	19.4
Tax	57	34	69.9	65	(11.0)	182	143	27.3
Reported Profits	169	92	84.3	183	(7.9)	(1,664)	(1,384)	20.2
Basic EPS (₹)	18.9	10.3	84.3	16.1	17.9	54.1	45.3	19.5

Source: Company, LKP Research

Exhibit 3: Balance Sheet Analysis

(₹ bn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	QoQ % / bps	YoY % / bps
Net Worth	3,049	3,212	3,276	3,444	3,592	3,690	2.7	14.9
RoE (%)	17.4	17.7	20.4	19.6	16.0	9.9	(602)	(776)
Tier 1 (%)	11.1	10.8	12.1	12.0	11.8	10.6	(120)	(22)
Total CAR (%)	13.5	13.3	14.7	14.6	14.3	13.1	(123)	(22)
RWA - Total	26,129	26,940	27,833	27,981	28,700	31,355	9.3	16.4
Advances - Total	29,513	30,582	31,993	32,350	33,452	35,195	5.2	15.1
Investments	15,553	15,692	15,704	15,726	16,926	16,894	(0.2)	7.7
Total Assets	51,998	53,241	55,170	55,431	58,263	59,656	2.4	12.0
RoA (%)	1.04	1.08	1.23	1.22	1.01	0.62	(39)	(46)
Deposits	41,903	42,136	44,238	45,312	46,892	47,622	1.6	13.0
CASA Deposits	17,978	18,007	18,629	18,661	18,860	18,813	(0.3)	4.5
CASA Ratio (%)	44.6	44.5	43.8	42.9	41.9	41.2	(70)	(330)
Interest Bearing Liabilities - Total	46,789	47,637	49,169	49,436	52,019	53,147	2.2	11.6

Source: Company, LKP Research

Exhibit 4: Funding Profile Analysis

(₹ bn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	QoQ % / bps	YoY % / bps
Global Deposits	41,903	42,136	44,238	45,312	46,892	47,622	1.6	13.0
CASA Deposits	17,978	18,007	18,629	18,661	18,860	18,813	(0.3)	4.5
Saving Deposit	15,652	15,730	15,815	16,078	16,330	16,318	(0.1)	3.7
Current Deposit	2,326	2,277	2,814	2,582	2,530	2,495	(1.4)	9.6
Dom. Term Deposits	23,925	24,129	25,609	26,652	28,032	28,809	2.8	19.4
Borrowings	4,886	5,501	4,931	4,124	5,127	5,525	7.8	0.4
Interest Bearing Liabilities - Total	46,789	47,637	49,169	49,436	52,019	53,147	2.2	11.6

Source: Company, LKP Research

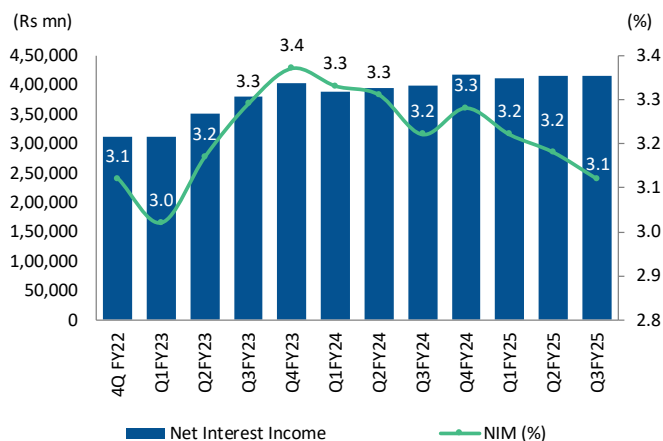
Exhibit 5: Assets Quality Analysis

(₹ bn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	QoQ % / bps	YoY % / bps
Total Slippages	24	32	35	79	41	50	23.6	57.2
<i>Slippages Ratio (%)</i>	<i>0.09</i>	<i>0.12</i>	<i>0.13</i>	<i>0.25</i>	<i>0.13</i>	<i>0.16</i>	3	4
Gross NPA	1,068	983	909	913	870	867	(0.3)	(11.8)
<i>Gross NPAs Ratio (%)</i>	<i>3.52</i>	<i>3.14</i>	<i>2.78</i>	<i>2.76</i>	<i>2.55</i>	<i>2.42</i>	(13)	(72)
<i>PCR - Calculated (%)</i>	<i>77.9</i>	<i>76.1</i>	<i>76.4</i>	<i>74.8</i>	<i>75.4</i>	<i>74.2</i>	(128)	(195)
Net NPA	236	235	215	230	214	224	4.9	(4.6)
<i>Net NPAs Ratio (%)</i>	<i>0.80</i>	<i>0.77</i>	<i>0.67</i>	<i>0.71</i>	<i>0.64</i>	<i>0.64</i>	-	(13)

Source: Company, LKP Research

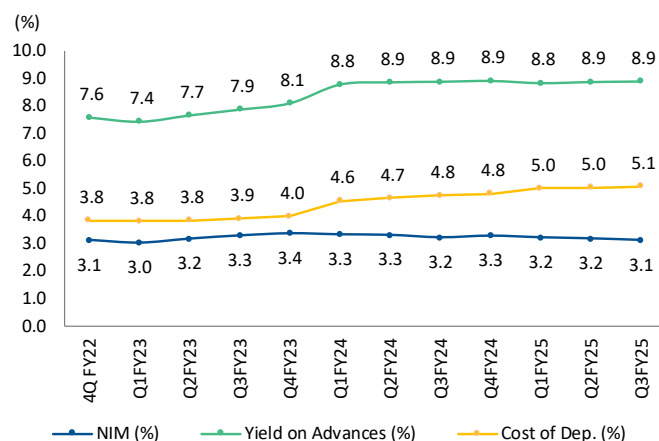
Quarterly story in charts

Exhibit 6: NII trend



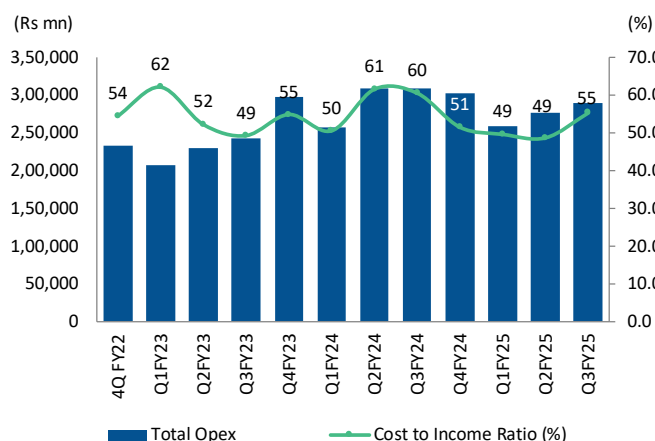
Source: Company, LKP Research

Exhibit 7: Yields & Margin trend



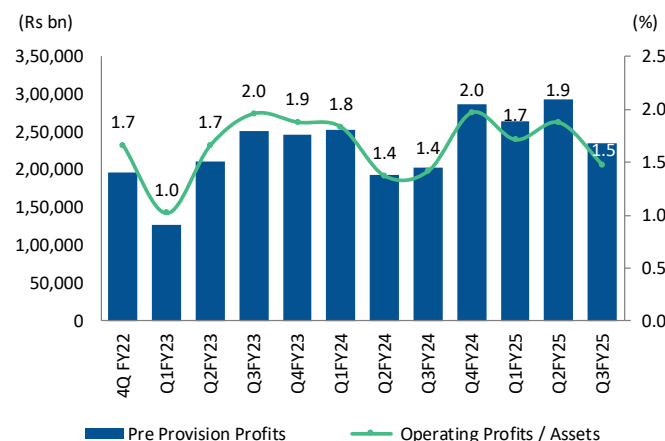
Source: Company, LKP Research

Exhibit 8: Total Opex Trend



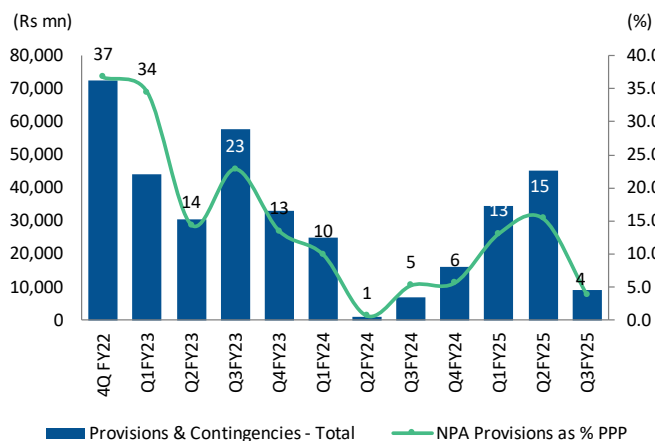
Source: Company, LKP Research

Exhibit 9: Pre Provision Profit trend



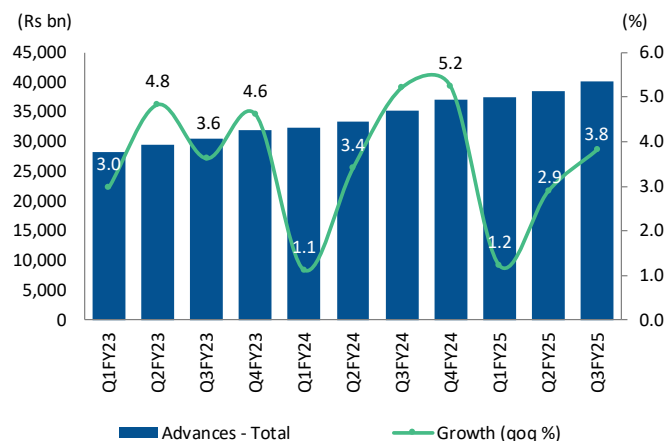
Source: Company, LKP Research

Exhibit 10: Provision expenses trend



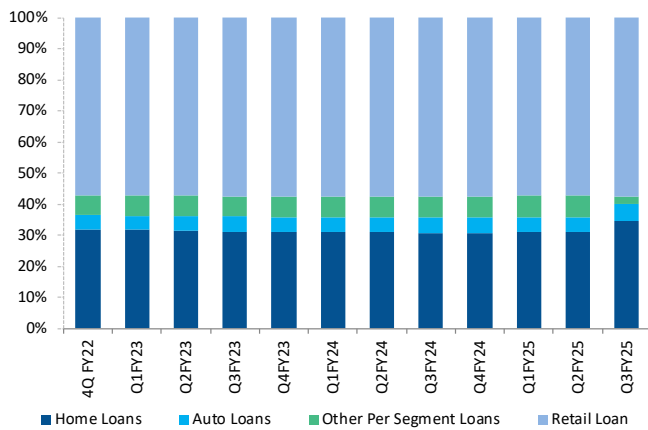
Source: Company, LKP Research

Exhibit 11: Loan book trend



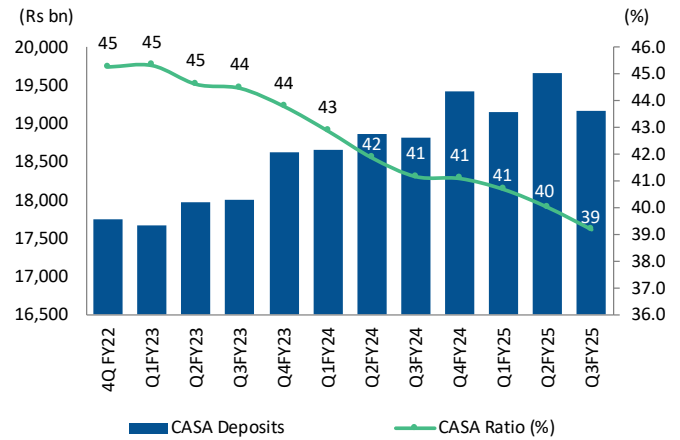
Source: Company, LKP Research

Exhibit 12: Loan book Mix



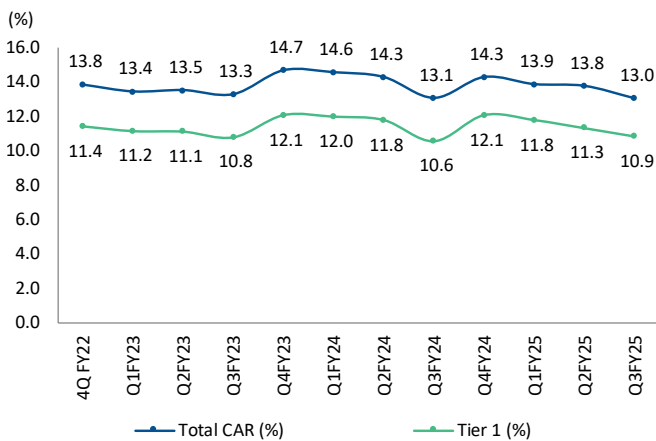
Source: Company, LKP Research

Exhibit 13: CASA Deposit trend



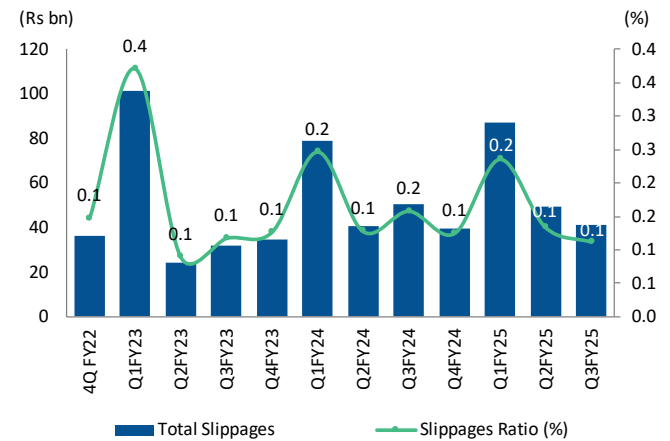
Source: Company, LKP Research

Exhibit 14: CRAR and Tier 1 trend



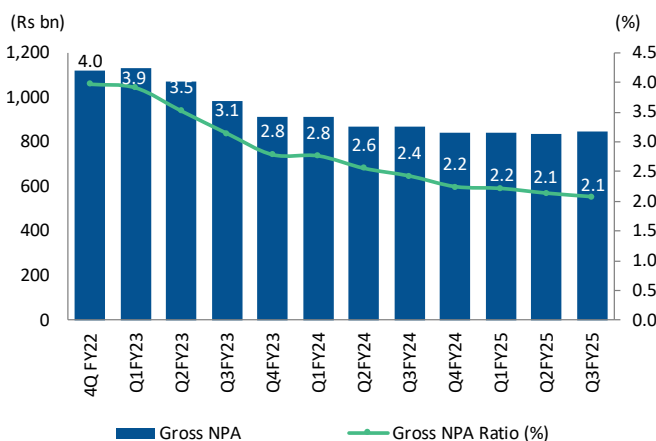
Source: Company, LKP Research

Exhibit 15: Slippages trend



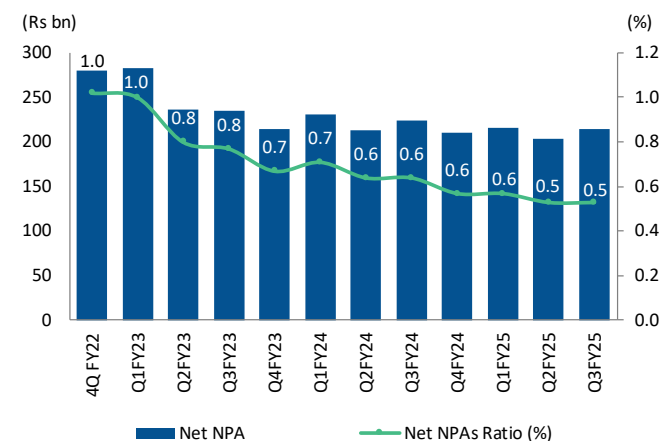
Source: Company, LKP Research

Exhibit 16: Gross NPA trend



Source: Company, LKP Research

Exhibit 17: Net NPA trend



Source: Company, LKP Research

Annual Projections

Exhibit 18: Profit and Loss Statement

(₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Int. Income / Opr. Revenue	3,321	4,151	4,804	5,370	6,012
Interest Expenses	1,873	2,553	2,958	3,245	3,591
Net Interest Income	1,449	1,599	1,846	2,125	2,421
<i>NIM (%)</i>	2.99	2.97	3.07	3.14	3.17
Other Income - Total	366	517	525	564	628
Net Operating Revenue	1,815	2,116	2,371	2,689	3,049
Employee Exp.	573	712	769	869	1,008
Other Opex	405	465	484	537	607
Total Opex	977	1,178	1,253	1,406	1,615
<i>C/I Ratio (%)</i>	53.86	55.66	52.86	52.31	52.99
Pre Provision Profits	837	938	1,117	1,282	1,433
<i>PPP Growth (yoy %)</i>	23.4	12.0	19.1	14.7	11.8
Provisions & Contingencies - Total	165	120	133	146	157
<i>Credit Cost (As % of Op. AUM)</i>	0.06	0.01	0.25	0.23	0.20
Profit Before Tax	672	818	985	1,136	1,277
Tax	170	207	249	288	323
<i>Effective Tax Rate (%)</i>	25.3	25.3	25.3	25.3	25.3
Reported Profits	502	611	736	848	953
<i>PAT Growth (yoy %)</i>	58.6	21.6	20.4	15.3	12.4

Source: Company, LKP Research

Exhibit 19: Balance Sheet

(₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	9	9	9	9	9
Reserves (ex Revel. Reserve)	2,990	3,488	4,224	5,072	6,025
Net Worth - Ex Revaluation	2,999	3,497	4,232	5,081	6,034
Deposits	44,238	49,161	54,320	62,350	71,587
Borrowings	4,931	5,976	6,851	6,167	5,804
Interest Bearing Liabilities (₹ mn)	49,169	55,136	61,172	68,517	77,391
Other Lia. & Prov.	2,725	2,888	2,744	2,908	3,025
Total Liabilities	55,170	61,797	68,468	76,866	86,856
Assets					
Cash & Cash Equivalent	3,079	3,108	3,055	3,578	4,353
Investments	15,704	16,713	18,175	19,294	20,163
Loan & Advances (₹ mn)	31,993	37,040	42,336	48,856	56,673
<i>Growth (yoy %)</i>	17.0	15.8	14.3	15.4	16.0
Fixed Assets	424	426	482	541	612
Other Assets	3,971	4,510	4,419	4,596	5,056
Total Assets	55,170	61,797	68,468	76,866	86,856

Source: Company, LKP Research

Exhibit 20: Per share data

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
Face Value (₹)	1	1	1	1	1
Adjusted Share O/S (mn)	8,925	8,925	8,925	8,925	8,925
Earnings Per Share (₹)	56.3	68.4	82.4	95.0	106.8
EPS (% YoY)	58.6	21.6	20.4	15.3	12.4
P/E (x)	13.1	10.8	8.9	7.8	6.9
Book Value (₹)	336.0	391.8	474.2	569.3	676.1
BVPS (% YoY)	16.8	16.6	21.0	20.0	18.8
P/BV (x)	2.2	1.9	1.6	1.3	1.1
Adj. BV (₹)	324.0	380.0	462.5	557.5	664.3
Adj. BV (% YoY)	19.1	17.3	21.7	20.6	19.2
P/ABV (x)	2.3	1.9	1.6	1.3	1.1

Source: Company, LKP Research

Exhibit 21: Detail RoA Tree Analysis (%)

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
<u>Yields / Margins</u>					
Yield on Advance	7.5	8.3	8.6	8.5	8.4
Yield on Funds	6.9	7.7	8.0	7.9	7.9
Cost of Funds (CoF)	4.0	4.9	5.1	5.0	4.9
Interest Spread	2.9	2.8	2.9	2.9	2.9
NIM's	3.0	3.0	3.1	3.1	3.2
Interest Income / Assets	6.3	7.1	7.4	7.4	7.3
Interest Exp. / Assets	3.6	4.4	4.5	4.5	4.4
NII / Assets	2.8	2.7	2.8	2.9	3.0
Fee Income / Assets	0.4	0.5	0.5	0.4	0.4
Other Non Core Income / Assets	0.1	0.1	0.1	0.1	0.1
Other Income / Assets	0.7	0.9	0.8	0.8	0.8
Net Operating Income / Assets	3.5	3.6	3.6	3.7	3.7
<u>Operating Ratios</u>					
NII to Net Operative Income	79.8	75.6	77.9	79.0	79.4
Other Income to Net Operative Income	20.2	24.4	22.1	21.0	20.6
Empl. Cost/Oper. Exps.	58.6	60.5	61.4	61.8	62.4
Other Op. Exps./Oper. Exps.	41.4	39.5	38.6	38.2	37.6
C/I Ratio (%)	53.9	55.7	52.9	52.3	53.0
Provisions as % PPP	9.1	5.7	5.6	5.4	5.1
Credit Cost (As % of Op. AUM)	0.1	0.0	0.3	0.2	0.2
Effective Tax Rate (%)	25.3	25.3	25.3	25.3	25.3
Employee Exp. / Assets	1.1	1.2	1.2	1.2	1.2
Other Opex/ Assets	0.8	0.8	0.7	0.7	0.7
Total Opex / Assets	1.9	2.0	1.9	1.9	2.0
Operating Profits / Assets	1.6	1.6	1.7	1.8	1.8
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	1.6	1.6	1.7	1.8	1.8
Provisions / Assets	0.3	0.2	0.2	0.2	0.2
Profit Before Tax / Assets	1.3	1.4	1.5	1.6	1.6
Tax Expenses / Assets	0.3	0.4	0.4	0.4	0.4
RoA	1.0	1.0	1.1	1.2	1.2
Leverage (x)	18.4	17.7	16.2	15.1	14.4
RoE	16.5	17.3	17.7	17.0	16.0
Adj. RoA	1.0	1.0	1.1	1.2	1.2
Adj. RoE	16.5	17.3	17.7	17.0	16.0

Source: Company, LKP Research

Exhibit 22: Balance Sheet Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
Credit / Deposit Ratio	72.3	75.3	77.9	78.4	79.2
Incremental C/D Ratio	125.0	102.5	102.7	81.2	84.6
Investment Deposit Ratio	35.5	34.0	33.5	30.9	28.2
Dom. SLR Investment / Deposits	28.8	27.8	27.5	25.4	23.1
CASA Ratio	43.5	39.4	39.4	39.4	39.4

Source: Company, LKP Research

Exhibit 23: Credit Quality

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
Slippage Ratio (%)	0.7	0.7	0.7	0.6	0.6
Gross NPA	9,09,278	8,42,763	8,79,339	9,26,599	9,80,846
Gross NPAs Ratio (%)	2.8	2.2	2.1	1.9	1.7
PCR (%)	76.4	75.0	76.5	78.2	79.8
Net NPA	2,14,666	2,10,511	2,06,436	2,02,439	1,98,391
Net NPAs Ratio (%)	0.7	0.7	0.5	0.4	0.4
Total Impaired Loans	9,09,278	8,42,763	8,79,339	9,26,599	9,80,846
Impaired Loan as % of Loan / AUM	2.6	2.1	1.9	1.8	1.6
Total Risk Reserves	6,94,611	6,32,253	6,72,903	7,24,160	7,82,455
Total Risk As % of Loan Book	2.0	1.6	1.5	1.4	1.3

Source: Company, LKP Research

Exhibit 24: Key Assumptions & Forecasts

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
Loan & Advances (₹ mn)	31,993	37,040	42,336	48,856	56,673
Growth (yoy %)		15.8	14.3	15.4	16.0
Interest Bearing Liabilities (₹ mn)	49,169	55,136	61,172	68,517	77,391
Growth (yoy %)		12.1	10.9	12.0	13.0
Yield on Funds	6.9	7.7	8.0	7.9	7.9
Cost of Funds (CoF)	4.0	4.9	5.1	5.0	4.9
Interest Spread	2.9	2.8	2.9	2.9	2.9
NIM's	3.0	3.0	3.1	3.1	3.2
Other Income Growth	(9.7)	41.1	1.6	7.4	11.4
C/I Ratio (%)	53.9	55.7	52.9	52.3	53.0
Effective Tax Rate (%)	25.3	25.3	25.3	25.3	25.3
Return Ratios					
Adj. RoA	1.0	1.0	1.1	1.2	1.2
Adj. RoE	16.5	17.3	17.7	17.0	16.0
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	0.1	0.0	0.3	0.2	0.2
Gross NPAs Ratio (%)	2.8	2.2	2.1	1.9	1.7
Net NPAs Ratio (%)	0.7	0.7	0.5	0.4	0.4

Source: Company, LKP Research

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